From: "Joe Menninger" <joe.menninger@heritagesouth.org> on 09/24/2007 05:40:02 PM

Subject: Truth in Lending

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Federal Reserve Board Comment

Dear Federal Reserve Board Comment:

We strongly object to the proposed changes that would severely curtail the ability of credit unions to use multi-featured, open-end lending plans. These changes address a problem that does not exist and will require credit unions to undergo significant expenses. The disclosures currently provided under these plans are sufficient and provide members with the information they need on a timely basis.

• For the proposed changes to the application and solicitation disclosures, we agree that the table format and 10-point font size may be easier for consumers to understand. As for disclosing possible annual percentage rates (APRs) that may apply, we do not believe listing only the highest possible APR would be appropriate, as consumers may very likely believe this would be the APR that would apply to them.

• Our comments on the proposed application and solicitation disclosures also apply to the proposed account-opening disclosures. In addition, financial institutions should have the flexibility to amend and reduce these disclosures since much of this information may also be in the cover letter that is provided to consumers when the account is opened. We also believe that the model account-opening disclosures and the application and solicitation disclosures should be identical, as opposed to substantially similar, as this will reduce confusion for both consumers and financial institutions who choose to use these model disclosures.

• We strongly support eliminating the requirement to disclosure the "effective" APR on the periodic statement, which is the APR that incorporates certain fees and costs. The effective APR is confusing and difficult for consumers to understand, since it may vary greatly from month-to-month and may significantly differ from the interest rate that has also been disclosed to the consumer. However, we do agree that the dollar amount of these fees and costs should continue to be disclosed. We also support eliminating the requirement to disclose the periodic rate.

• With regard to the proposed periodic statement model form, the Board's consumer testing seems to indicate that grouping transactions by type, such as purchases, cash advances, balance transfers, fees, and interest, is easier for consumers to understand. However, credit unions have generally been grouping transactions chronologically and have heard very few complaints from their members with regard to this format.

• With regard to the proposal that will include information on the effects of making minimum payments, as required under the Bankruptcy Abuse

Prevention and Consumer Protection Act of 2005 (Bankruptcy Act), creditors should be permitted to describe this information as a "good faith" estimate, or similar terminology, since it is based on assumptions that may or may not apply in each specific situation. We also support the flexibility provided under the proposal that will allow creditors to bypass certain requirements if they provide actual repayment information on the periodic statement or through the toll-free telephone number, instead of the required hypothetical repayment information.

• We support the proposed change that would require a 30-day advance notice before changing certain terms of an open-end credit plan, instead of the current 15-day requirement.

• We generally support the changes that will apply to electronic application and solicitation disclosures. We also agree there may be instances when consumer consent may not be necessary for certain electronic disclosures, such as the disclosure of fees when the consumer is making payments online.

• We support the additional guidance that is provided for debt suspension coverage, which is comparable to the guidance for debt cancellation coverage.

• Because this proposal incorporates the most extensive and comprehensive changes to the Regulation Z open-end rules since the early 1980s, credit unions and others should be given a significant amount of time to prepare for these changes. For this reason, mandatory compliance should not be required until at least two years after these changes are issued in final form.

Specifically we are addressing the proposed changes to Section 2 (a) (20) Open-End Credit.

Respectfully we would request the proposed changes in this section to be withdrawn and the original rules reinstated.

The reason for our request is due to the detrimental affect these changes will have on our credit union and the credit union industry. The credit union industry has used Multi-Featured Open-End Lending for more than 25 years. Approximately 3,500 credit unions use open-end lending as a convenient process that allows them and their members to establish long-term borrowing relationships. If the proposed regulations are to become effective, credit unions will be forced to change their lending practices. This will result in lost convenience and additional costs that will be passed along to the memberships. The lending landscape is extremely competitive. One of the most vital, competitive programs that credit unions have is Multi-Featured Open-End Lending. Most other financial institutions will not have to incur expenses to switch to closed-end lending, thus eroding the credit union's competitive position.

In addition, the proposed changes could have a double impact upon credit unions that have to switch from Multi-Featured Open-End Lending to Closed-End Lending. Since the Federal Reserve Board is also considering making changes to Closed-End Lending, credit unions would have to comply with back to back regulation that would impact a credit union's ability to serve their members effectively. Once again, impacting credit unions with additional costs that will be illustrated within this letter.

Heritage South Community Credit Union, formerly known as EPCO Credit Union, has been in existence more than 50 years, and was one of the first credit unions to implement Multi-Featured Open-End Lending. During this time, we have never received a Truth-in-Lending complaint regarding the disclosures by any of our members. We believe that member education has played a major role in this accomplishment. We feel there is no problem with the disclosures on Multi-Featured Open-End Lending.

If the proposed changes are to be made, several cost items will be incurred that involve staff retraining, additional lending staff to handle additional workload, purchase of new lending forms, programming and reformatting of the new lending forms by the credit union's data processor.

• Our current lending personnel can service a growing loan demand under current regulation. With the proposed changes, we would need to increase our lending staff by 50%. Salary and Benefits plus training to be productive are variable and would certainly stress the operating expense ratio that we are required to maintain in a fiscal manner under state regulation. An estimated cost for the additional salary and benefits could be annually of $300,000.00.

• Currently we spend $9,376.85 annually for our lending forms with our forms vendor. The amount provides our credit union access to digital images of the documents and intellectual property rights supplied by our forms vendor with support as needed.

• We recently spent $10,800.00 to reformat our forms by our data processing vendor. The dollar amount represents only the charge by the data processor to program the forms to our specifications. The data processor charges $150 per hour to program the lending forms into the lending software that resides on the core processing system. The hourly costs can fluctuate as determined by the specifications. A closed-end loan note and disclosure would require several billable hours to program. With regards to programming, hours equals days. This cost would have to be incurred again in order to accommodate any new forms as needed by the proposed changes.

• Several hours of staff time were needed for the testing of the forms programmed by the data processor to ensure the proper specifications were being met and to make the forms ready for use to the membership. Staff time spent was approximately 150 hours at an average salary and benefit cost of $19,556.91 expended. The process to have forms ready from programming to full utilization takes approximately 6 to 8 months conservatively.

• Costs will be passed to members in the form of higher loan rates and services delays if we are not able to hire additional personnel due to budget and expense restrictions.

All this means greater expense to credit unions and their member-owners, which will erode credit unions' competitive positions. To make a change from Open-End lending forms to Closed-End lending forms would create additional costs that were not budgeted or planned for. In smaller credit unions, this could mean their demise by liquidation or merging with another credit union due to the demands of change and the expense of which most could not afford. Therefore reducing the number of credit unions in the United States of America, who currently serve people of modest means.

Being able to offer our member owners Multi-Featured Open-End Lending provides them with advantages of: quick access to funds, remote lending and less paperwork. The advantages for credit unions are: matching services of competitors, repeat lending business through ease of convenience, less paperwork by being more efficient, and remote lending through internet, electronic, or phone requests made by the member.

Credit unions are recognized for their outstanding service, year in and year out. It is our opinion that the current proposed changes could adversely affect the credit union's customer service reputation and disrupt the credit union industry's primary method of meeting members' demand for loans.

Sincerely,

Joe Menninger